



# **General Fund Mid-Year Budget Update**

City Council Regular Agenda  
January 14, 2014

# Presentation Overview

- The purpose of the presentation is to provide an update of the city's financial condition and receive guidance from City Council on policies and strategies under consideration
- The presentation discusses:
  - Where we have been - Year-end FY 2013
  - Where we are now - Mid-year FY 2014
  - Where we are going - FY 2015 and Beyond
- The outcome of today's discussion will lay the groundwork in developing the budget in FY 2015 and beyond

# Where We Have Been

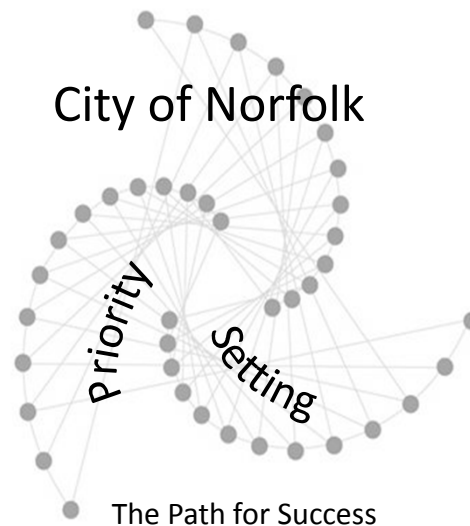


Established, September 2011

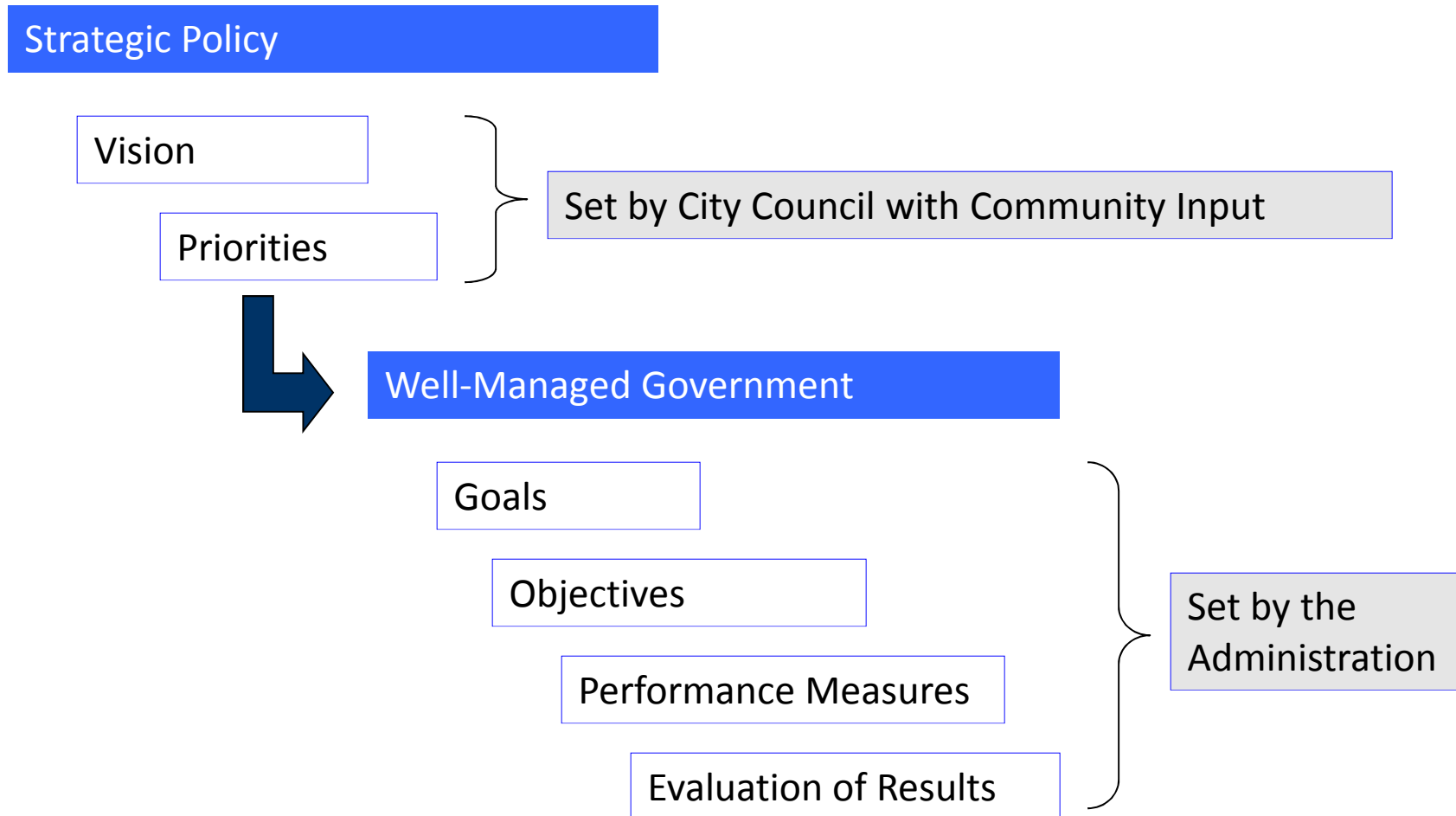
# Groundwork for a Well-Managed Government and a Resilient City



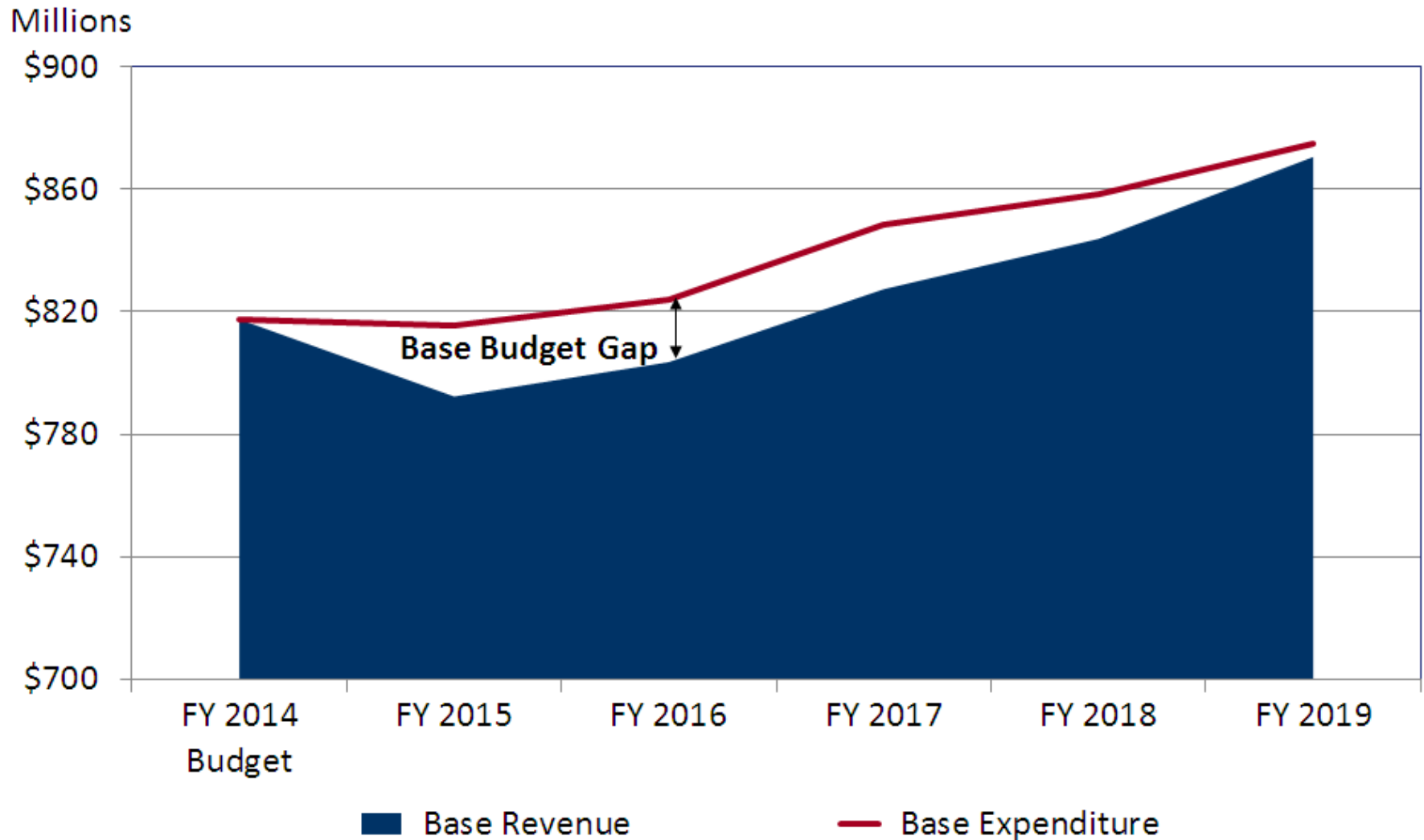
**IMPACT NORFOLK**



# How Do We Fund Priorities



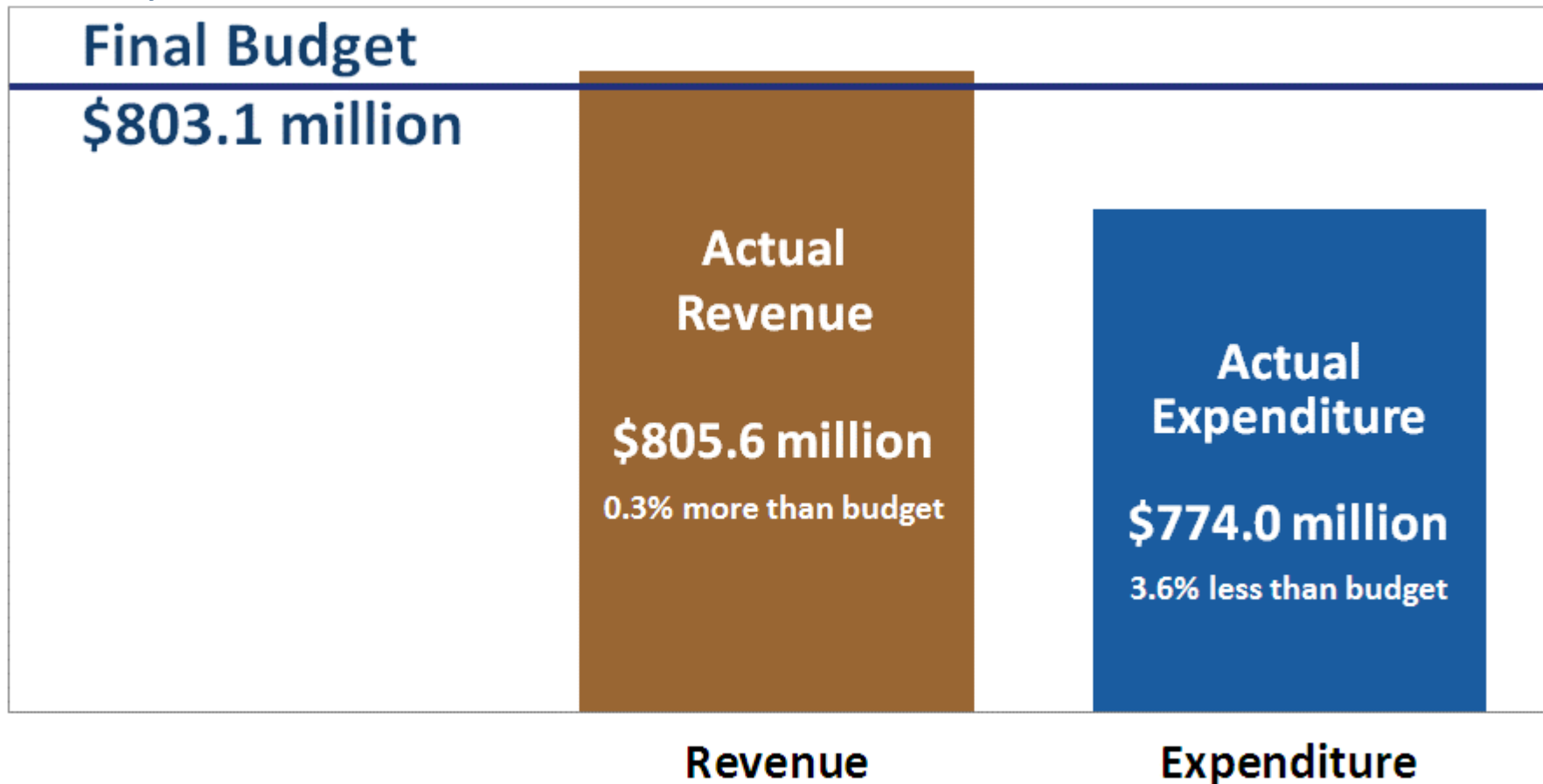
# Preliminary Five-Year Outlook



# General Fund FY 2013 Results

## \$5.2 million surplus

Variance was less than one percent of the budget and the smallest in three years\*



\* Variance of \$5.2 million was after accounting for other resources, carryforward and designations

# Accounting for Surplus

## FY 2013 Budget Overview *(preliminary)*

- Revenue *(0.3 percent more than budget)*
- Expenditure *(3.6 percent under budget)*

Budget	Actual	Variance
\$803.1	\$805.6	\$2.5
\$803.1	\$774.0	(\$29.1)
	<u>\$31.6</u>	

## FY 2013 Budget Variance

### FY 2013 Year-End Resources:

- FY 2013 Budget Variance
- Other Resources *(FY 2012 surplus, account closeouts)*

\$31.6  
\$ 9.9

### Subtotal Year-End Resources

\$41.5

### Designations: Approved Carryforward/Designations

- Approved FY 2014 Carryforward
- Approved Norfolk Public Schools (NPS) FY 2014 Carryforward
- Designations

(\$19.6)  
(\$ 7.7)  
(\$ 9.0)

### Subtotal Designations

(\$36.3)

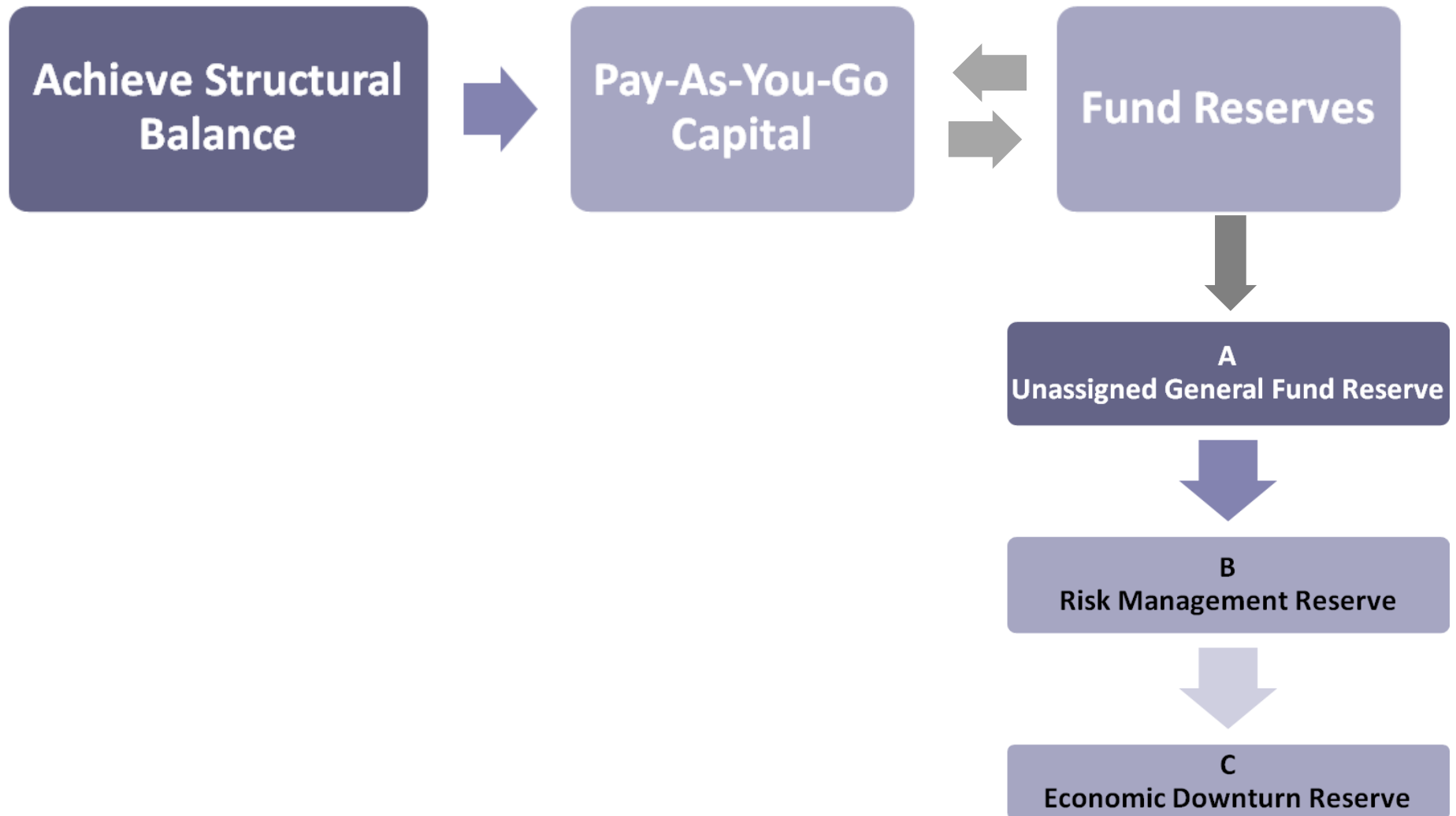
### Undesignated Balance\*

\$5.2

\* Does not include NPS surplus of \$2.4 million



# New financial policies and the \$5.2 million surplus

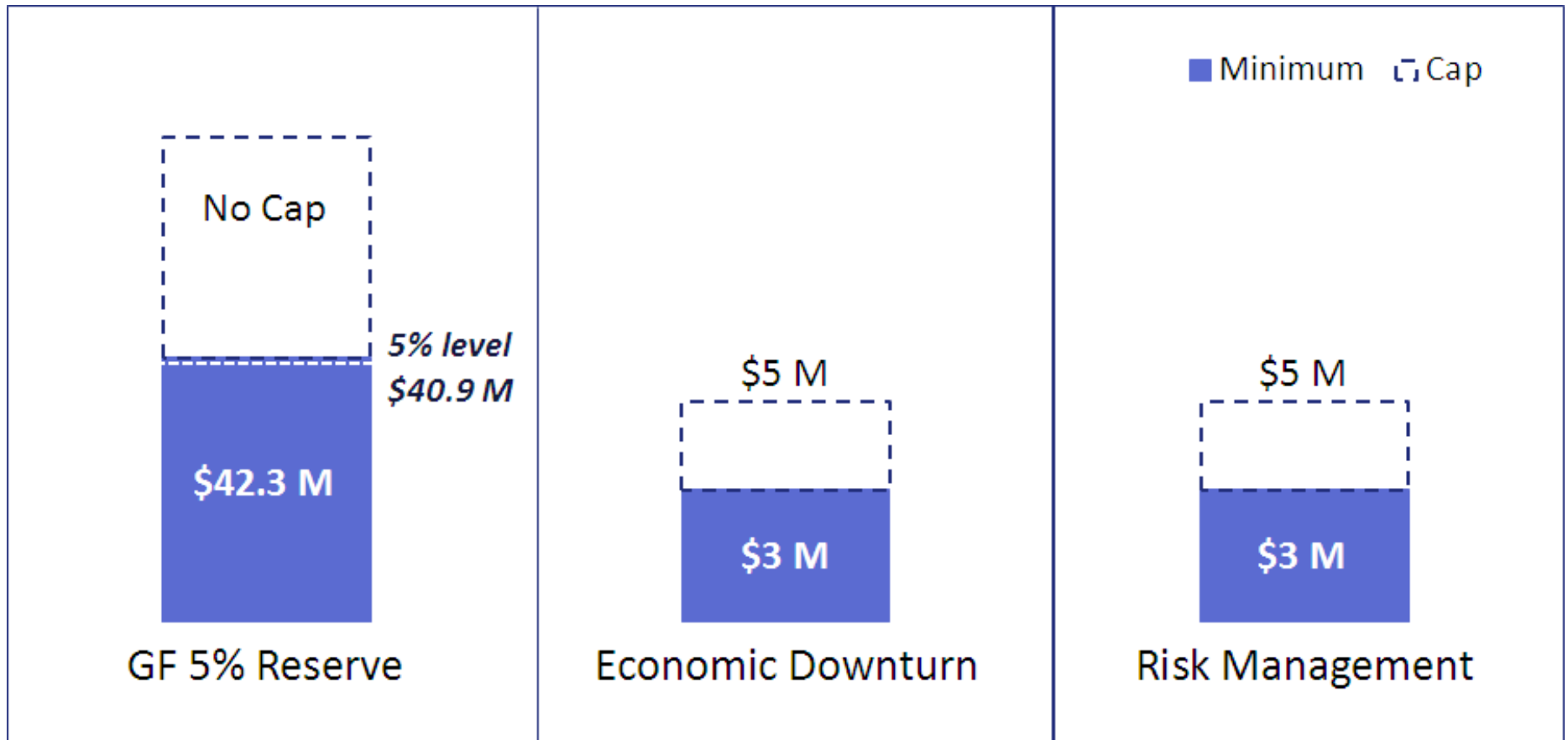


# Pay as you go Capital

From a financially sound practice,  
when possible, use cash for capital  
projects and purchase of vehicles and  
technology, as opposed to bonds

# General Fund Reserves

Reserves have met or exceeded minimum threshold



# Administration Recommendation

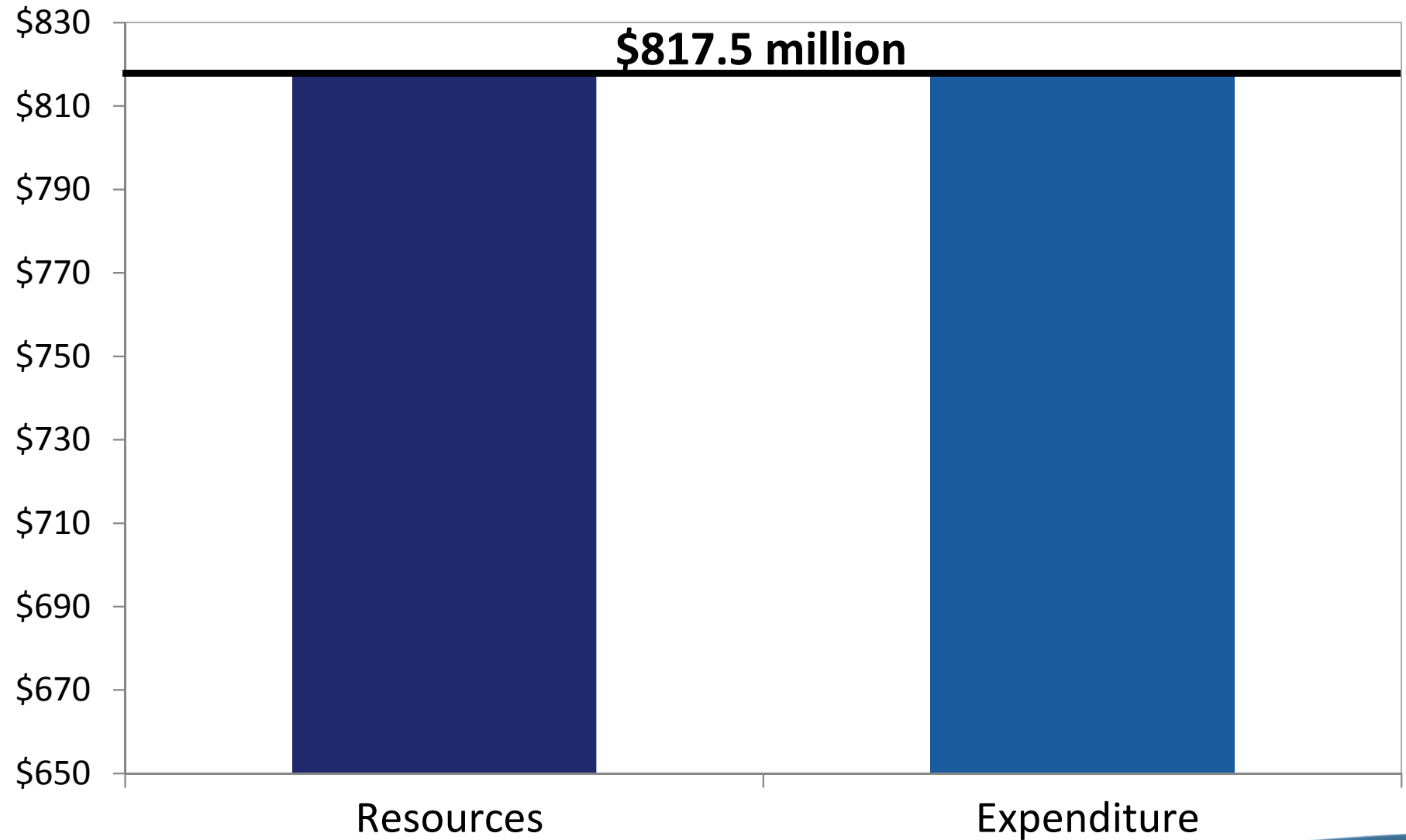
- Use FY 2013 surplus in manner consistent with financial policies
- Use surplus in the event revenues and expenditures are so far out of balance, resulting in significant reductions in programs and services



# **Where We Are Now**

## **Mid-Year FY 2014**

# FY 2014 Budget

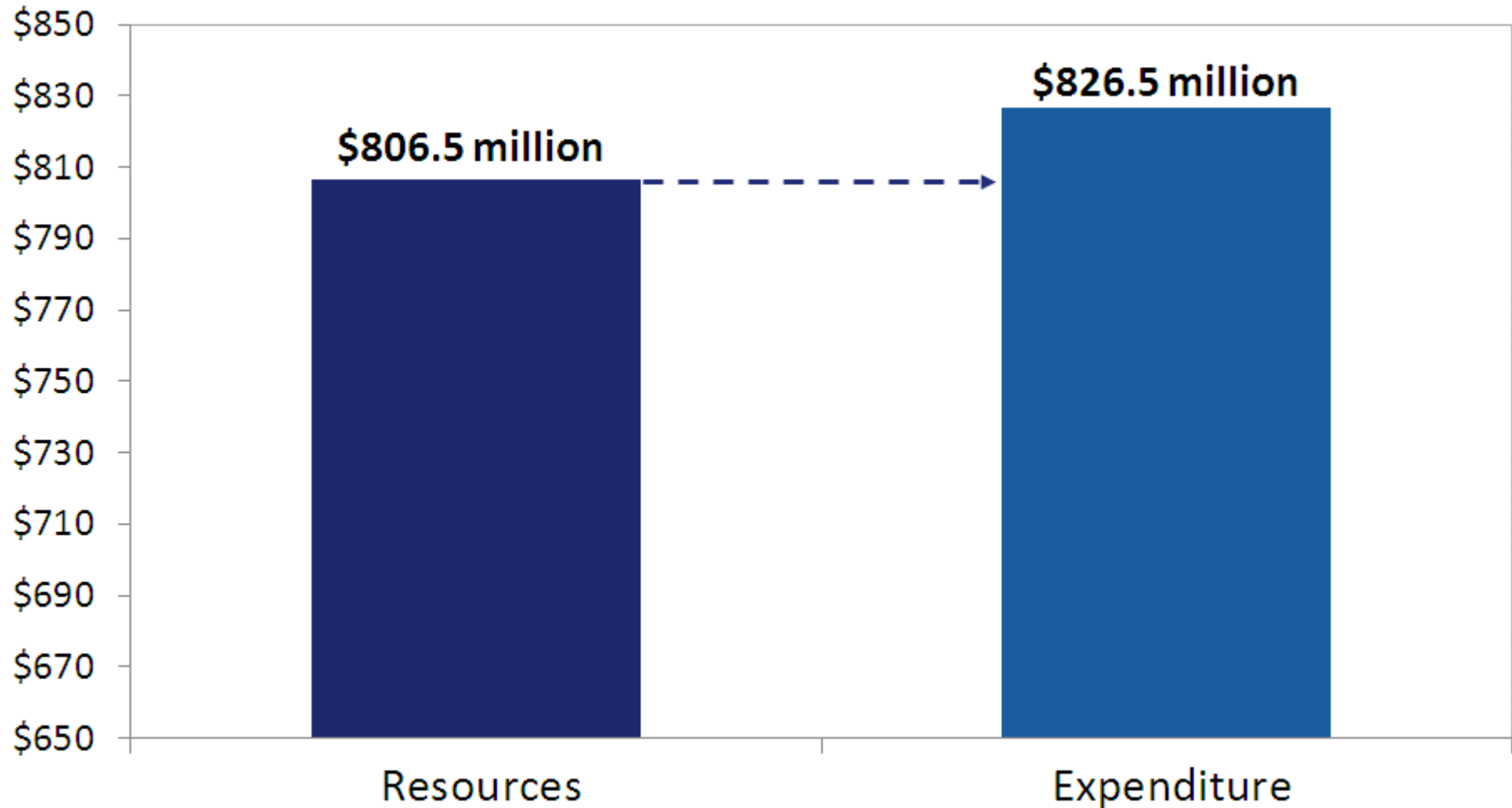


# Mid-Year FY 2014 Budget Update

Year-to-date, the general fund is tracking the budget

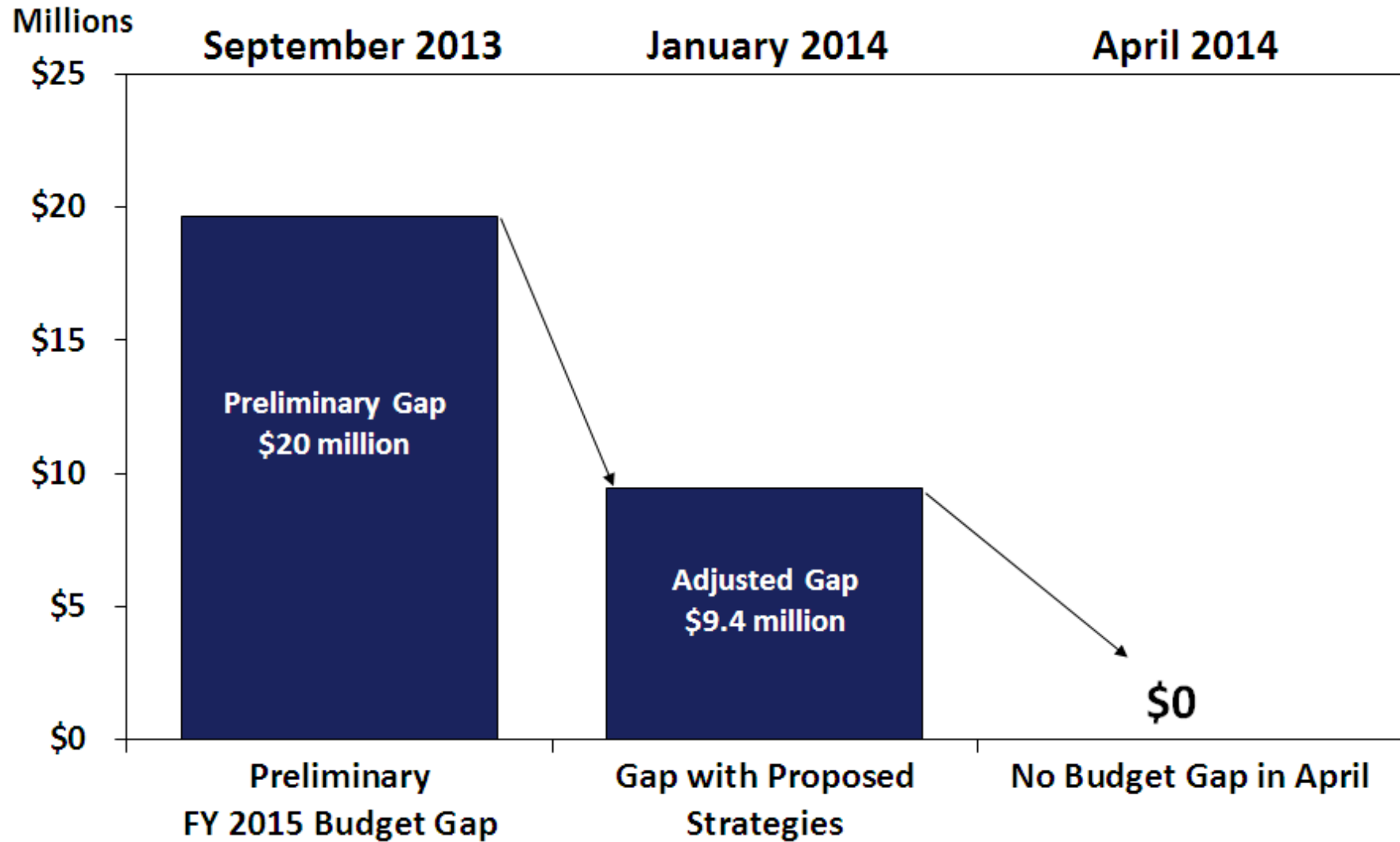
# Update: FY 2015 Preliminary \$20 million gap

## City Council Retreat, September 2013





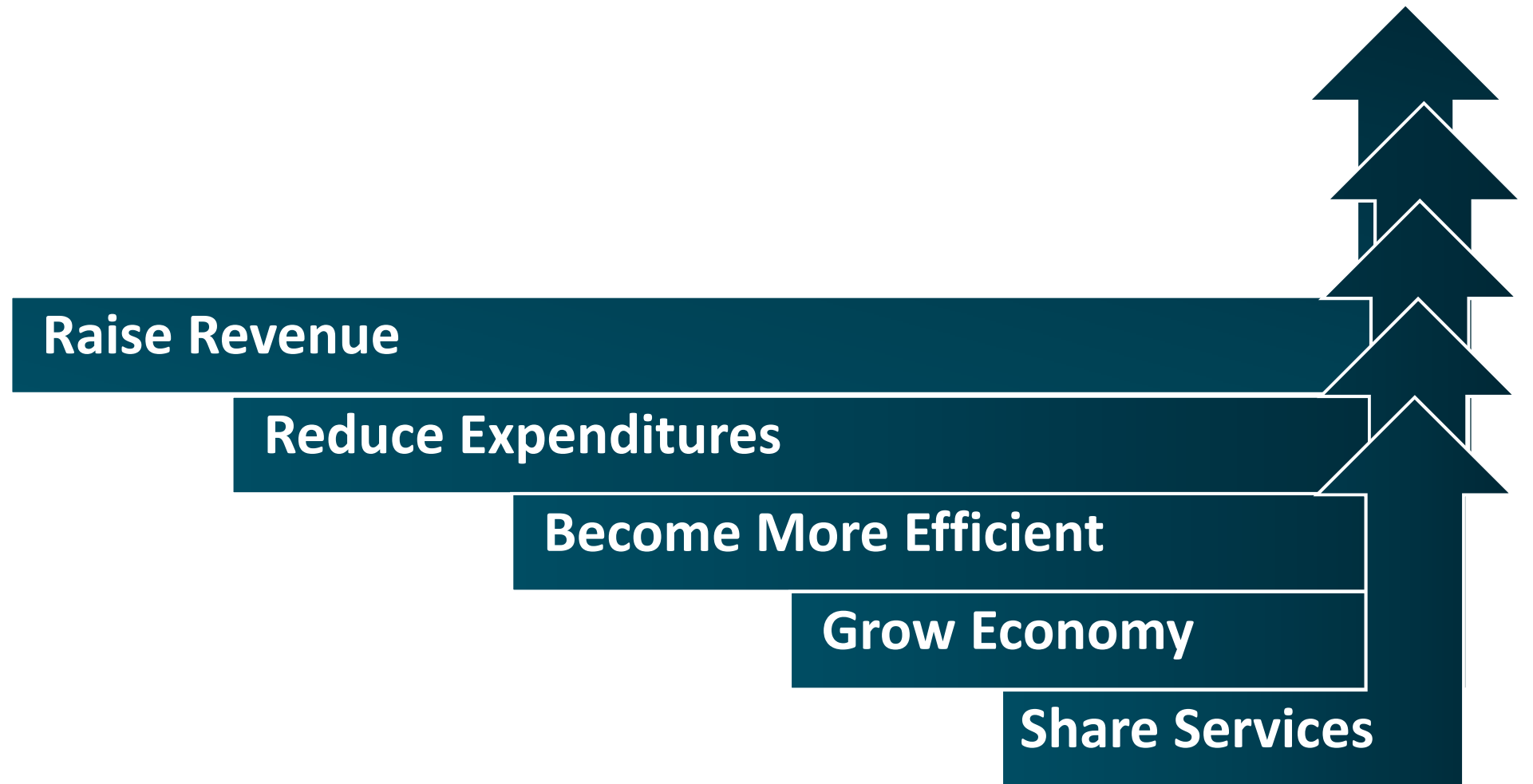
# FY 2015 Preliminary Budget Gap



# Cutting the gap in half

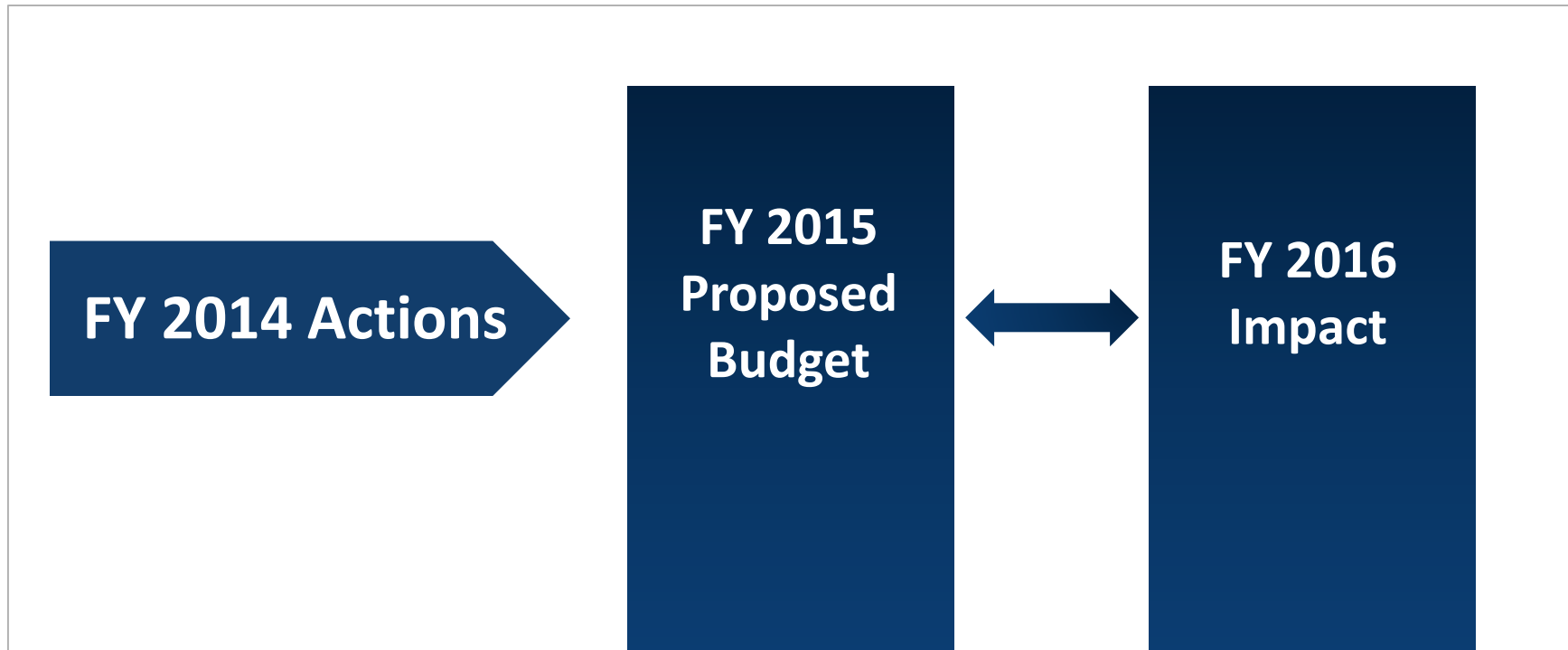
- Refined estimates
- Shift accountability from central administration to departments
  - Level fund FY 2015 at FY 2014 budget
  - Reduce overall departmental budget by one percent

# Guiding principles to balance the budget similar to past situations

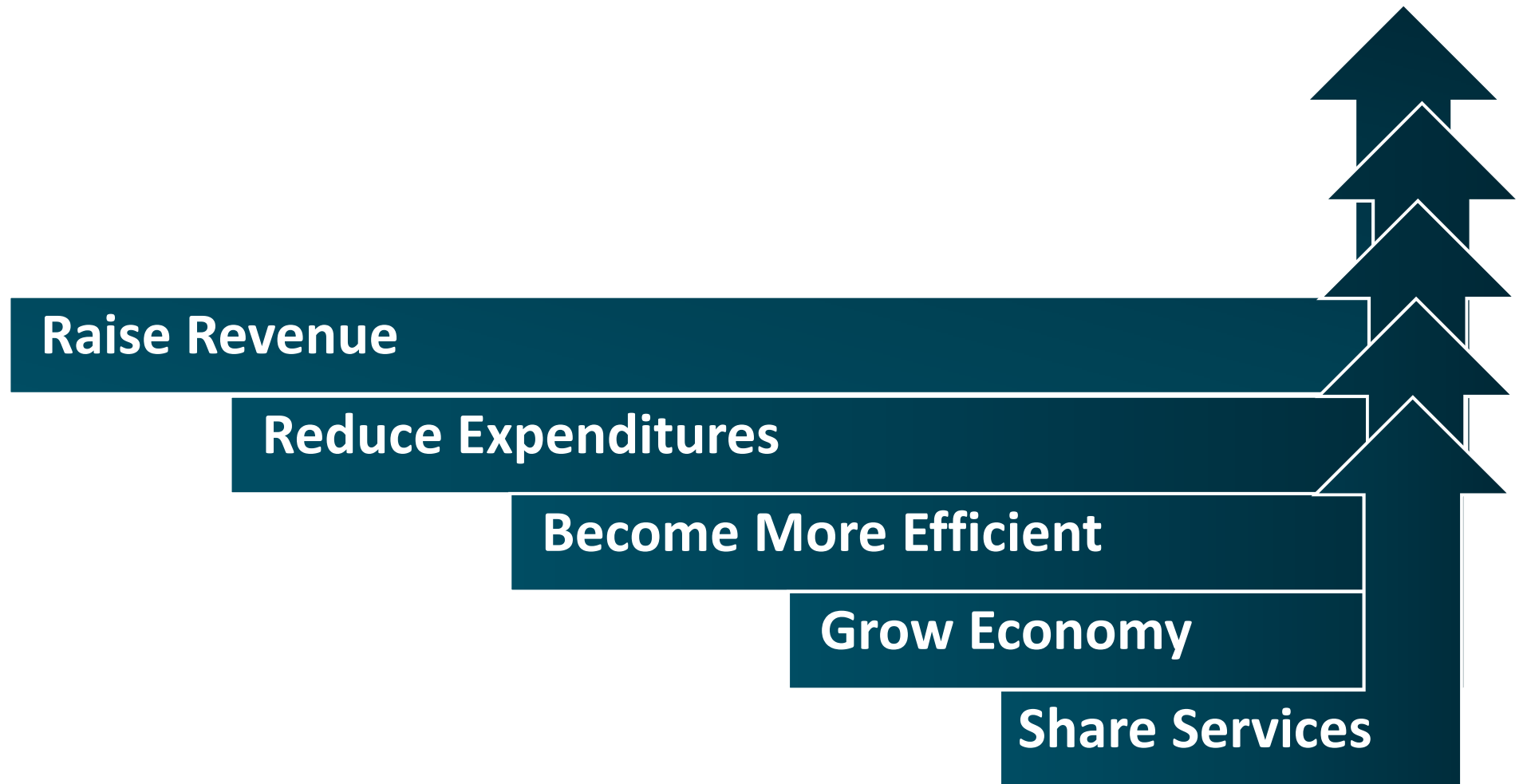


# Guiding principles to balance the budget

- However, we will begin the process of viewing the budget development process through a **two-year** lens



# Five-pronged approach to balancing the budget



# What we have accomplished





# **Where We Are Going**

## **FY 2015 and beyond**

# Ongoing Priorities

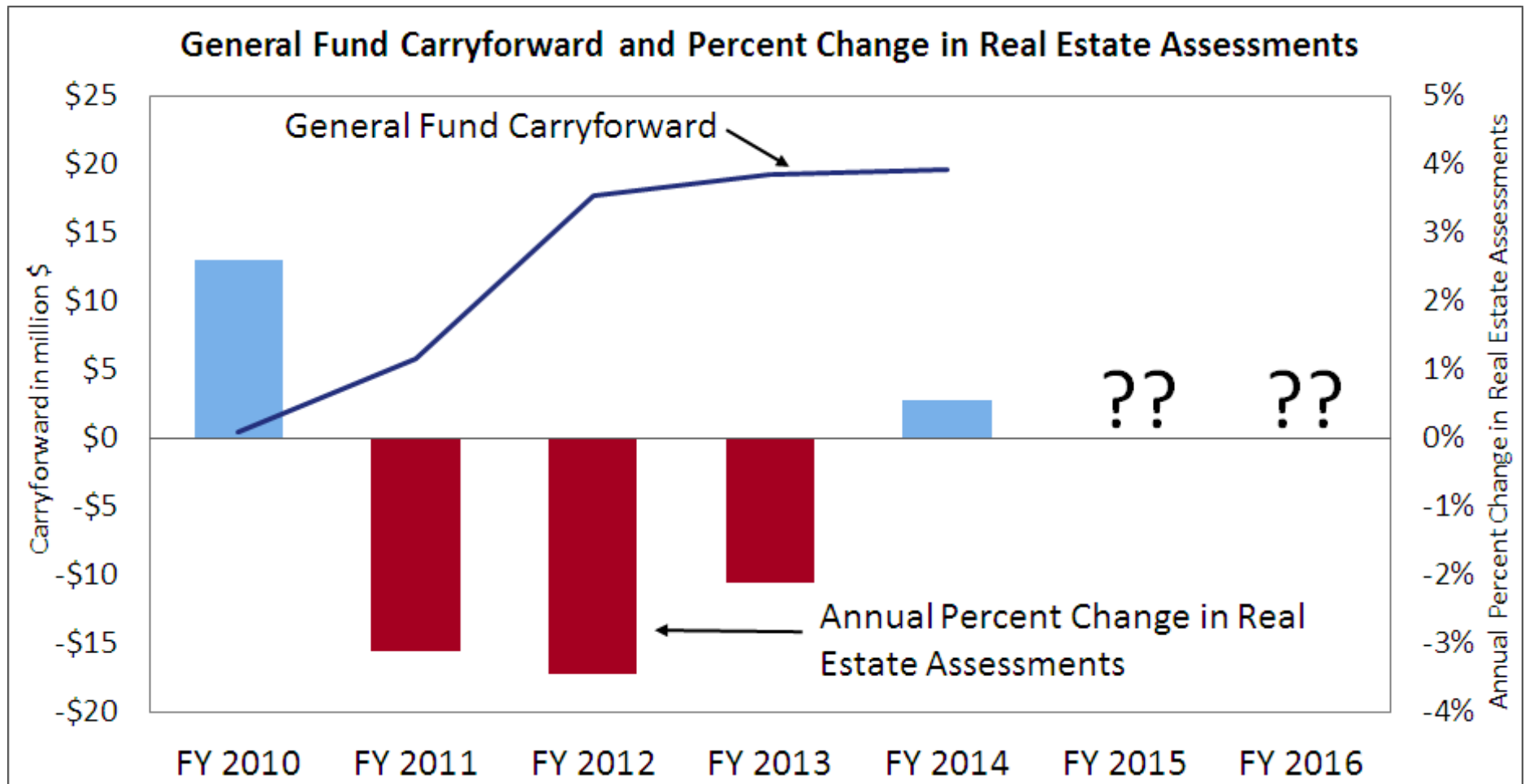
- Financial Stability
  - Decrease reliance on one-time revenue for ongoing expenses
- CIP/Neighborhoods
  - Neighborhood plans – look for opportunities to restore funding
  - Healthy neighborhoods
- Compensation
  - Employer of Choice
  - Attraction, retention, motivation and development (ARMD) of employees
- Lifelong Learning
  - Maintain city support for K-12
  - Focused workforce development strategy



# Achieve structural balance

Reduce reliance on carryforwards to balance the budget

Ensure carryforwards are tied to one-time expenditures



# Ensuring financial stability

- Two-year lens
- Economic Roundtable/Indicators
- Executive Strategic Evaluation Team (ESET)/Strategic Workforce Analysis Team (SWAT)
  - Consolidate or centralize staffing/functions
  - Review programs and services to identify opportunities for targeted reductions
  - Align fees and charges to fully recover costs
- Quarterly Financial Reports
- Establish a policy that supports real estate revenue sustainability

# Taking care of our capital needs

- More ongoing cash funding for projects
- Funding for neighborhood improvements not only in the “Neighborhood Plan” areas but all neighborhoods
- Independent Facility Assessment



# **Attraction, Retention, Motivation and Development (ARMD)**

# Recap: Goals of the FY 2014 Comprehensive Compensation Review

- Compensation study to review salaries
- Determine if the step system is appropriate
- Consider implementing additional retirement programs (Five and Five, DROP, VRIP)
- Consider scenarios to alleviate compression
- Review of market rates
- Simplify the format of the current compensation plan

# Attraction, Retention, Motivation and Development (ARMD)



# Comparison of Select Market and Compression Adjustments for Regional Localities

Locality	Action
Chesapeake	\$4.8 million in FY 2008 to address compression and prevailing market equity issues
Hampton	RFP in progress for comprehensive pay study
Newport News	Position regrades for out-of-market positions annually (typically less than ten per year); Overhauled pay plan in FY 2005, providing an average increase of two to four percent
Portsmouth	Compensation study in progress in FY 2014
Suffolk	Implemented phase one of recommendations from comprehensive pay study in FY 2013. One third of pay adjustments from study were provided
Virginia Beach	Awarded annual compression adjustments from FY 2001 - FY 2009 and FY 2011 - FY 2014; Provided \$8 million in FY 2008 to address compression adjustments and market survey recommendations. Appropriates \$650,000 every three years for vertical compression

# How have general employee salaries increased over the years?

FY	1997	1998	1999	2000	2001	2002	2003	2004	2005
GW	2.0%	0.0%	2.0%	3.0%	2.5%	4.0% <sup>1</sup>	3.0%	1.5%	1.5%
STEP	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	0.0%	2.5%	2.5%
<b>Total</b>	<b>4.5%</b>	<b>2.5%</b>	<b>4.5%</b>	<b>5.5%</b>	<b>5.0%</b>	<b>6.5%</b>	<b>3.0%</b>	<b>4.0%</b>	<b>4.0%</b>

FY	2006	2007	2008	2009	2010	2011	2012	2013	2014
GW	1.5%	2.0%	2.0%	1.0%	0.0%	0.0%	0.0%	2.0%	2.0%
STEP	2.5%	2.5%	2.5%	2.5%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total</b>	<b>4.0%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>3.5%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>2.0%</b>	<b>2.0%</b>

► **Classified employees received a salary increase of:**

- 26 percent between FY 1999 and FY 2004
- 22 percent between FY 2004 and FY 2009
- 4 percent between FY 2009 and FY 2014

<sup>1</sup> Four percent was the average increase for general employees from a compensation study



# Norfolk is the only regional locality to provide a two percent GWI for all employees over the past two fiscal years

City	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
<b>Norfolk</b>	<b>3.5%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%<sup>1</sup></b>	<b>2.0%</b>	<b>2.0%</b>
Chesapeake	3.0%	0.0%	1.5%	1.5%	0.0%	1.6%
Hampton	2.8%	0.0%	0.0%	0.0% <sup>1</sup>	0.0% <sup>2</sup>	1.0% + <sup>2</sup>
Newport News	2.0%	0.0%	0.0% <sup>1</sup>	2.0%	1.5%	2.0%
Portsmouth	3.0%	0.0%	0.0%	0.0% <sup>3</sup>	0.0% <sup>3</sup>	0.0% <sup>3</sup>
Suffolk	3.0%	0.0%	2.0% <sup>3</sup>	0.0%	2.0%	0.0%
Virginia Beach	2.5%	0.0%	0.0%	2.5%	1% <sup>4</sup>	1.66% <sup>5</sup>

<sup>1</sup>\$500 one-time bonus

<sup>2</sup>Up to \$1,000 pay for performance bonus

<sup>3</sup>Percent adjustment awarded in form of one-time 3% bonus

<sup>4</sup>FY 2013 included 1% for all employees, with only retirement non-contributors using their increase to offset VRS costs.

<sup>5</sup>FY 2014 includes a salary increase effective October 1, 2013

Note: Compensation increases offset by increased contribution requirements to VRS, general adjustments due to salary studies and actions to relieve compression are not included

# Plan of Action for ARMD

## FY 2014

- Comprehensive review of compensation
- Transition to city-administered health insurance
- VRIP for general employees



## FY 2015

- 5 and 5 conversion
- Out of market adjustments
- DROP for sworn officers
- Living wage adjustments
- Address internal equity on a case by case basis



## FY 2016

- 1 percent general wage increase for all employees
- 1, 2, or 3 percent increase for eligible general employees
- 1 step increase for eligible sworn officers




## FY 2017

- Establish ongoing 1 to 4 percent salary increases which may be based on financial triggers

# Preliminary Estimate of General Fund Cost

Action	FY 2015	FY 2016	FY 2016 Estimated Retirement Costs
VRIP	\$0	\$0	\$234,000
5 and 5 conversion	\$330,000	\$0	\$1,376,000
Living wage adjustment	\$100,000	\$0	
Market rate adjustments	\$950,000	\$0	
DROP	\$0	\$0	\$612,300
Funds to address internal equity	\$100,000	\$100,000	
1 percent GWI for all employees	\$0	\$1,830,000	
1, 2, or 3 percent (eligible general)	\$0	\$1,230,000	
1 step (eligible sworn)	\$0	\$1,320,000	
<b>Total</b>	<b>\$1,480,000</b>	<b>\$4,480,000</b>	<b>\$2,222,300</b>

**\$6,702,300**



# **Council Strategy Discussion, Direction and Setting Priorities for the FY 2015 Budget**